CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATIONS FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: DIBM   **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 08/8/2018   **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS)

1. Distinguish between the following terms

    (i)   Fixed inputs and variable inputs   [2 marks]

    (ii)   Veblen goods and inferior goods   [2 marks]

    (iii)   Positive and normative economics   [2 marks]

    (iv)   Perfectly inelastic demand and elastic demand   [2 marks]

    (v)   Demand curve and Engels curve   [2 marks]

2. The following economic functions have been derived from the books of Kenya Coffeex ltd.

$$Q_1 = 3P^2 - 4P$$
$$Q_1 = 24 - P^2$$

    (a)   Of the two functions, which one is the demand and which is the supply curve? Why?   [2 marks]

    (b)   At what values of price and quantity would the market clear?   [2 marks]

3. Discuss the determinants of price elasticity of demand.   [6 marks]

4. Using an illustration, discuss the stages of production.   [10 marks]

QUESTION TWO

(a)   Given the total cost function below:

$$TC = 1000 + 100Q - 15Q^2 + Q^3$$

        (i)   Determine average fixed cost when the output (Q) is 10 units   [2 marks]

        (ii)   Compute the total and average costs at the level of (10 units)   [4 marks]

        (iii)   What is the level of marginal cost at the level of 12 units of production[4 marks]

(b)   Explain the conceptual difference between cardinal and ordinal utility, hence explain the assumptions made under each approach.   [10 marks]

QUESTION THREE

(i)   Clearly discuss the factors that determine demand and supply   [10 marks]

(ii)   Discuss the sources of monopoly power.   [10 marks]

QUESTION FOUR

(i)   Using their characteristics, distinguish between perfect competitive firm and oligopoly.

        [10 marks]

(ii)   Discuss the reasons why the demand curve could slope upwards.   [6 marks]

(iii)   Clearly discuss the properties of indifference curves.   [4 marks]